STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	:	
On Its Own Motion	:	
-vs-	:	
Ameren Illinois Company	:	
d/b/a Ameren Illinois	:	
f/k/a Central Illinois Light Company	:	**10-0684**
d/b/a AmerenCILCO	:	
	:	
Reconciliation of revenues collected	:	
under gas adjustment charges with	:	
actual costs prudently incurred.	:	

PROPOSED ORDER

By the Commission:

I. PROCEDURAL HISTORY

On December 2, 2010, the Illinois Commerce Commission ("Commission") entered an Order Commencing PGA Reconciliation Proceedings ("Initiating Order") directing Ameren Illinois Company d/b/a Ameren Illinois f/k/a Central Illinois Light Company d/b/a AmerenCILCO ("AIC")[1] to present evidence showing the reconciliation of revenues collected under its purchased gas adjustment ("PGA") tariff with the actual cost of gas supplies prudently incurred and recoverable under said PGA tariff for the twelve months ending December 31, 2010 ("Reconciliation Period"). Notice of the filing of AIC's testimony and exhibits with the Commission was posted in AIC's business offices and was published in compliance with the Initiating Order in newspapers having general circulation in AICs' service territory, in the manner prescribed by 83 Ill. Adm. Code 255, "Notice Requirements for Change in Rates for Cooling, Electric, Gas, Heating, Telecommunications, Sewer or Water Services."

Pursuant to proper legal notice, hearings were held in this matter before a duly authorized Administrative Law Judge of the Commission at its offices in Springfield, Illinois on August 25, 2011, April 19, 2012, September 26, 2012, December 5, 2012, March 19, 2013, June 26, 2013, and August 20, 2013. Appearances were entered by counsel for Commission Staff ("Staff") and counsel for AIC, as well as by counsel for the only intervenor in this matter, the Citizens Utility Board ("CUB"). Ryan Risse, the Supervisor of Fuel and Gas Accounting for Ameren Services Company, an affiliated service company of Ameren Corporation ("Ameren"), and Cynthia Foerstel, the Lead

[1] Effective October 1, 2010, Central Illinois Light Company d/b/a AmerenCILCO and Illinois Power Company d/b/a AmerenIP merged with and into AmerenCIPS, resulting in AmerenCIPS being the sole surviving legal entity. Simultaneously, AmerenCIPS' name was changed to Ameren Illinois Company d/b/a Ameren Illinois.

Gas Supply Executive in the Gas Supply Division of AIC, testified for AIC. Burma Jones, an Accountant in the Accounting Department of the Financial Analysis Division of the Commission's Bureau of Public Utilities, and Mark Maple, a Senior Gas Engineer in the Energy Engineering Department of the Safety and Reliability Division of the Bureau of Public Utilities, testified on behalf of Staff. CUB did not offer any testimony. At the conclusion of the August 20, 2013 hearing, the record was left open. Staff and AIC each filed an Initial Brief and Reply Brief on October 8, 2013 and October 29, 2013, respectively. On November 21, 2013, the record was marked "Heard and Taken." A Proposed Order was served on the parties.

II. GOVERNING AUTHORITY

In accordance with Section 9-220 of the Public Utilities Act ("Act"), 220 ILCS 5/1-101, et seq., the Commission may authorize an increase or decrease in rates and charges based upon changes in the cost of purchased gas through the application of a PGA clause. Section 9-220(a) requires the Commission to initiate annual public hearings "to determine whether the clauses reflect actual costs of…gas…purchased to determine whether such purchases were prudent, and to reconcile any amounts collected with the actual cost of…gas…prudently purchased." In each such proceeding, the burden of proof shall be upon the utility to establish prudence of its applicable costs. For gas purchases, the provisions of Section 9-220 are implemented in 83 Ill. Adm. Code 525, “Uniform Purchased Gas Adjustment Clause.” Gas costs which are recoverable through a PGA clause are identified in Section 525.40. Adjustments to gas costs through the Adjustment Factor are addressed in Section 525.50. The gas charge formula is contained in Section 525.60. Annual reconciliation procedures are described in Section 525.70.

The legal standard for the prudency review is well established. In a recent docket concerning an earlier AIC affiliate (Illinois Power Company), the Commission stated its prudence standard as follows:

> …that standard of care which a reasonable person would be expected to exercise under the same circumstances encountered by utility management at the time decisions had to be made. [Citations Omitted] In determining whether a judgment was prudently made, only those facts available at the time judgment was exercised can be considered. [Citations Omitted] (Docket No. 07-0572, January 5, 2012 Order at 2)

III. PARTIES POSITIONS

A. AIC Position

AIC witness Risse's responsibilities include direct supervision of the accounting for Rate Zone II's (formerly the AmerenCILCO service territory) inventories of fuel, including natural gas and propane. He is also responsible for the calculations necessary to implement Rate Zone II's PGA. Mr. Risse testified that an independent auditor, PricewaterhouseCoopers LLP, audited the revenue and cost data presented in

Ameren Ex. 1.1. A copy of the audit report was submitted as Ameren Ex. 1.2, and an Officer Verification as Ameren Ex. 1.3.

AIC witness Foerstel testified regarding AIC's general purchasing policy for acquiring gas supply services, transportation, and storage capacity. She also testified regarding the changes made to AIC's pipeline capacity and storage service contracts, including outlining what steps AIC took during the Reconciliation Period to minimize its pipeline capacity costs. She identified the steps taken to determine the appropriate level of capacity resources required to meet the needs of its system supply customers and end user transportation customer bank requirements; explained how AIC holds firm capacity to provide for End User Banks for transportation customers; described the steps AIC took in 2010, to determine the appropriate level of capacity resources required to meet the needs of its firm customers; explained how AIC determines the proper amount of leased storage for its supply portfolio; and discussed why leased storage is important to providing high reliability. Ms. Foerstel also described how AIC's on-system storage fields are used to supply gas to its distribution system, and explained what efforts AIC pursued in 2010 to ensure optimal use of its owned storage facilities. She set forth AIC's strategy to minimize interstate pipeline over-run and scheduling charges, and the measures implemented by AIC to help reduce the potential of incurring unauthorized use charges. She testified as to AIC's general price hedging strategy and the purpose thereof, and discussed the AIC Commodity Risk Management Policy ("Policy"), to which AIC's gas supply activity is subject. Ms. Foerstel testified that managing price volatility is the primary goal of the gas supply hedging strategy and that this goal was incorporated into the Policy. Ms. Foerstel explained, in detail, how the Policy affects natural gas supply procurement, and the type of price forecasts AIC employs for its gas supply purchasing and hedging horizon. She described the process AIC uses to purchase reliable natural gas supply at a reasonable cost, and what steps AIC takes on peak days when the daily demand level exceeds the available supply. Ms. Foerstel identified the sources of supply used to meet the sales demands on the peak day and testified that it was not necessary to declare a system Critical Day in 2010. She testified regarding AIC's procedures for monitoring natural gas from its interstate pipeline suppliers, and that AIC's gas purchases during 2010 were consistent with its procurement policies. Ms. Foerstel testified that AIC's procurement of natural gas was prudent during 2010 and also sponsored Ameren Ex. 2.1.

Ms. Foerstel explained why AIC utilized Panhandle Eastern Pipeline Company's ("PEPL") authorized over-run ("AOR") service during February 2010, and why AIC believes it was prudent to do so. She also explained the Federal Energy Regulatory Commission-approved ("FERC") tariff provisions governing PEPL's firm storage service under Rate Schedule FS-Flexible Storage ("FS") including those provisions that relate to the AOR of injection and withdrawal contract quantities which AIC utilizes on certain occasions. Ms. Foerstel further testified that three critical factors known at the time the AOR charges were incurred were the basis of prudent management to exercise its right to AOR services; those factors include: (1) potential PEPL gas retention penalties, (2) weather, and (3) aquifer storage operation characteristics.

With regard to the leased storage contract between AIC and PEPL, the contract has a Maximum Storage Quantity (“MSQ”) of 3,665,000 Dekatherms ("Dth") that can be injected and withdrawn seasonally. The contract provides for a Maximum Daily Injection Quantity (“MDIQ”) of 23,240 Dth, and a Maximum Daily Withdrawal Quantity (“MDWQ”) of 28,500 Dth. Injections into and withdrawals from PEPL’s FS storage require the use of PEPL transportation capacity which AIC has under firm contract. Ms. Foerstel explained that PEPL’s FS tariff has a seasonal inventory cycling requirement that must be met and that there are penalties for failing to meet those requirements. The FS tariff states that PEPL will retain 0.25% of the excess Stored Volume over 20% of the Maximum Daily Storage Quantity ("MDSQ") on March 31 of each calendar year.

Ms. Foerstel described the winter season prior to the Reconciliation Period (2008-2009) as being unusually warm in February and March 2009. Ms. Foerstel testified that the 2009-2010 winter season began with a very warm November (24% warmer than normal), and although December 2009 and January 2010 helped with slightly colder than normal temperatures, AIC’s storage withdrawal at the end of January 2010 was slightly behind for the season. According to AIC, colder than normal temperatures during mid- to late-February 2010 provided AIC with an opportunity to get back on plan and actually get ahead of plan in case the weather turned significantly warmer as it did the prior winter in February and March 2009. Ms. Foerstel testified that February turned out to be 9% colder than normal but March 2010 was dramatically 21% warmer. Ms. Foerstel explained AIC's plan was to end the season at 13%, not the 20% as indicated by Staff witness Maple. She also explained why AIC did not withdraw its MDWQ every day in February 2010. She contends that in order to keep AIC-owned storage assets on plan, protect field integrity, and allow for flowing baseload supply, PEPL withdrawals were reduced below the MDWQ for a number of days in February 2010. Ms. Foerstel explained that the contracted storage service with PEPL is a no notice service, allowing for swings on the volumes needed without nominations. AIC contracts and pays for a MDWQ under PEPL’s FS tariff. In February 2010, AIC was able to use a higher MDWQ without committing to that higher volume and additional charges under a long term FS agreement. AIC views AOR as another valuable tool for balancing its system.

Ms. Foerstel explained how the on-system storage assets affected AIC's decision to exceed PEPL storage withdrawals. AIC establishes storage withdrawal plans in advance but at times has to adjust the monthly activity based on many factors such as weather, market prices, and unplanned pipeline maintenance or outages. The AIC-owned storage fields, Lincoln and Glasford, were behind plan heading into February 2010. Ms. Foerstel testified that there is less flexibility to deviate from plans with these company-owned fields than with leased storage assets. Both Lincoln and Glasford are aquifer fields. Aquifer fields need to be cycled each season to maintain performance, retain field integrity, and prevent gas migration. Getting leased storage withdrawals back on scheduled plan allowed Lincoln and Glasford's March withdrawal plans to be met. Therefore, cycling these aquifer fields was a critical factor weighed by AIC at the time the decision was made to incur the AOR charges. Ms. Foerstel testified that being behind on storage withdrawals for the season impacted AIC’s purchasing decision. She stated the Policy establishes a six-year planning horizon for gas supply purchases and hedging. Most of the baseload gas for the next injection season had already been purchased and no additional baseload purchases were executed after December 2009 because of the potential overhang of storage due to the warmer than normal weather. She stated AIC's summer purchasing decisions are based on storage withdrawal plans for the previous season. The original plan was to empty PEPL leased storage to 13% of MSQ.

Ms. Foerstel argues that Mr. Maple's analysis of AIC's storage withdrawal plan fails to support his imprudence allegation. She believes that his analysis at line 123 of his direct testimony does not adhere to the prudence standard, and would constitute a hindsight analysis. She stated that at the time the AOR charges were incurred, management simply could not predict the future, only manage the risks it foresaw based upon the facts known at the time of the decision which included actual historical weather patterns from the previous winter. According to AIC, purchased gas and gas management decisions are made with the information known at the time and the decision to utilize AOR was reasonable given the known information at the time. Ms. Foerstel testified that the AOR charges were prudent and that by taking the AOR withdrawals on PEPL, it allowed AIC to end the withdrawal season on target, retain its storage fields' integrity, and start the 2010 injections schedules as planned. AIC contends that the use of AOR was critical to accomplish the above while avoiding long term reservation changes on additional MDWQ and potential excess inventory retention penalties under PEPL's Rate Schedule FS.

Ms. Foerstel testified further that Mr. Maple bases his imprudence claim on the comparison of only one cost and one benefit (or avoided cost in this case). It is true that the avoided penalty could never justify the expense of an AOR charge when considered in isolation. Ms. Foerstel argues it is only when you factor in all the other benefits of the AOR storage withdrawal activity that it's prudence become obvious. She explained another benefit AIC considered when making its decision to incur the AOR charges: the AOR withdrawals allowed AIC to over 256,000 Dth of PEPL storage capacity available for summer injections. On February 1, 2010 the New York Mercantile Exchange gas pricing for the 2010 summer injection season was $5.586/Dth, while gas for the following winter season was priced at $6.468/Dth. Thus the storage capacity made available by the AOR storage withdrawals (256,000 Dth) had the potential to capture that price savings of $0.882/Dth, which is far more than $0.1485/Dth AOR charge from PEPL. Mr. Foerstel stated that if the price savings is applied the volume of over-run gas, AIC customers had the potential to save over $225,000 based on the pricing at the time the decision was made to utilize AOR storage withdrawals on PEPL.

B. Staff Position

Staff witness Jones testified that she reviewed AIC's PGA reconciliation and the underlying documents that support the calculations. She sponsored a schedule which reflected Staff's proposed adjustment to recoverable commodity gas costs resulting in a Factor O refund of $38,147. The Staff adjustment disallows over-run charges billed by PEPL in February 2010. She recommends the Commission accept the PGA reconciliation as reflected on Staff Ex. 1.0, Schedule 1.01, page 1 of 2. Ms. Jones further recommends AIC implement a Factor O refund in the amount of $38,147 in the first monthly PGA filing after the date of the order in this proceeding.

Staff witness Maple testified regarding the results of his review of AIC's PGA reconciliation. He reviewed the direct testimonies of AIC witnesses Risse and Foerstel, as well as data request responses that directly addressed issues related to the prudence of AIC's natural gas purchasing. Using the Commission's criteria for prudence, Mr. Maple found over-run charges which he considered imprudent, incurred by AIC from PEPL in February 2010. Mr. Maple testified that AIC operates its own storage fields, but that the volume of that storage is not large enough to give AIC the peak day deliverability and flexibility it desires. Thus AIC contracts leased storage capacity from several interstate pipelines, one of which is PEPL. Mr. Maple explained that AIC contracts for a certain total volume of storage, although only a fraction of that is available for AIC to inject or withdraw on a given day. The lease contract specifies the maximum daily quantities AIC can inject or withdraw on any given day. Additionally there are monthly and seasonal parameters that constrain the way AIC can inject or withdraw the gas in the PEPL storage service. Mr. Maple testified that AIC's contract with PEPL specifies that AIC must draw its stored inventory down to at least 20% of its maximum contracted inventory by the end of the withdrawal season. The season ends the last day of March, and any stored quantity above 20% of its maximum contracted inventory is subject to a 0.25% penalty. Mr. Maple explained that in its response to Staff data request ENG 1.60, AIC stated the inventory must be below this 20% threshold before the end of March to avoid the penalty.

Mr. Maple explained why AIC incurred the over-run charges. He stated that on 20 days in February 2010, AIC exceeded the maximum amount of gas it was allowed to withdraw, and that while AIC had authorization from PEPL to withdraw more than its allowed quantity it was still subject to over-run penalties totaling $38,147 for the month. Mr. Maple explained AIC's reasoning for exceeding the allowed withdrawals on these 20 days. In response to Staff data request ENG 1.60, AIC stated that coming into February 2010, AIC was behind on its winter plan and had now withdrawn as much gas as it had intended from either the PEPL storage or its company-owned storage. AIC wanted to get below the 20% inventory level in February to avoid losing any gas to PEPL and then would concentrate on catching up on withdrawals from company-owned storage in March.

Mr. Maple argues that it was not prudent for AIC to incur these over-run charges for several reasons. First, by exceeding its allowed withdrawals on 20 days, AIC not only caught up to its end of February storage plan goal, but actually far surpassed its goal. Second, the over-runs caused AIC to be ahead of the planned schedule at the end of February. Mr. Maple testified that the over-runs were unnecessary and that even if AIC wanted to get ahead of the plan in February for fear of a warm March, it would have been possible without incurring these over-run charges. Mr. Maple opined that it did not make economic sense to pay over-run charges because AIC would have gotten far below the 20% threshold by the end of March even without any over-runs. Mr. Maple testified that if AIC had not withdrawn all the over-run gas and instead at the end of March the 20% threshold was exceeded by that amount, the worst case AIC would have faced by not taking the over-run gas in February was $3,531. Mr. Maple proposed the Commission disallow the entire $38,147 from the February 2010 over-run charges imposed by PEPL because AIC did not need to incur over-run charges to maintain its winter storage plan or to meet the 20% inventory threshold, and the cost over-runs were not economically prudent when compared to the potential PEPL penalty AIC would have incurred for failing to meet the 20% threshold.

Mr. Maple testified that Ms. Foerstel's testimony offered virtually no rebuttal in response to Staff's arguments and adjustments. He argued there are two factors which explain that AIC had enough information at the time to avoid AOR charges. First, Mr. Maple claimed AIC hit its target on February 21, 2010 and yet it continued to withdraw gas beyond its maximum daily limits on six of the remaining seven days of the month, incurring more penalties. Second, the harm of withdrawing over-run gas outweighed the benefits. Mr. Maple explained that a simple calculation which could have been computed at the time AIC was making its decisions would have showed AIC that customers were paying $38,147 to potentially save $3,531 in PEPL inventory penalties.

IV. COMMISSION CONCLUSION

At the outset of February 2010, the Commission understands that AIC was behind in its planned withdrawal of stored gas for the 2009-2010 heating season. As February developed into a colder than expected month, AIC had two sources from which to withdraw gas to meet customer demand: gas stored with PEPL and gas held in the Lincoln and Glasford company-owned aquifer storage fields. AIC had reasons to withdraw gas from both sources. With regard to the company-owned aquifer storage fields, field integrity requires some degree of annual withdrawals. With regard to the leased storage, PEPL's FS tariff states that PEPL will retain 0.25% of the excess Stored Volume over 20% of the MDSQ on March 31 of each calendar year. When withdrawing gas from the PEPL leased storage, however, any withdrawals must be within a certain range each day. Failure to stay within this range will result in the assessment of AOR charges. On 20 days in February, AIC exceeded the established range with its gas withdrawals and incurred AOR charges amounting to $38,147.

Although AIC maintains that its decision to incur the AOR charges was prudent in light of what was known at the time, the Commission is not convinced. That withdrawals from storage were necessary to meet customer demand is not disputed. Nor do the parties disagree that aquifer storage field management is less flexible than leased pipeline storage management. The degree to which aquifer storage field management is less flexible with regard to withdrawals, however, is apparently disputed. Staff points out that upon reaching the PEPL withdrawal limit each day, AIC could have increased withdrawal from its storage fields to avoid the AOR charges. The record lacks any convincing evidence as to why the storage fields could not be used in this way. The Commission therefore does not understand why AIC chose to incur AOR charges when, in light of then-current weather, withdrawal levels, and season-end penalty thresholds, there was no need to do so. Nor does the Commission look favorably upon AIC's opinion that the option to pay over-run charges is a tool that should be used in the normal course of non-emergency supply situations. Accordingly, the Commission finds in favor of Staff's proposed adjustment.

V. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the record herein, is of the opinion and finds that:

(1) AmerenCILCO n/k/a AIC is a corporation engaged in the distribution of natural gas to the public in Illinois, and, as such, is a public utility within the meaning of the Act;

(2) the Commission has jurisdiction over AmerenCILCO n/k/a AIC and of the subject matter of this proceeding;

(3) the statements of fact set forth in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;

(4) the evidence shows that for the 2010 Reconciliation Period, AmerenCILCO n/k/a AIC acted reasonably and prudently in its purchases of natural gas, with the exception of certain PEPL authorized over-run charges cited by Staff in the amount of $38,147;

(5) the reconciliation of revenues collected under AmerenCILCO n/k/a AIC's PGA tariffs with the actual costs prudently incurred for the purchase of gas supply during the Reconciliation Period, as reflected in the Appendix attached hereto, should be approved;

(6) Section 7(1)(g) of the Illinois Freedom of Information Act, 5 ILCS 140/1 et seq., exempts from public disclosure:

> Trade secrets and commercial or financial information obtained from a person or business where the trade secrets or commercial or financial information are furnished under a claim that they are proprietary, privileged or confidential, and that disclosure of the trade secrets or commercial or financial information would cause competitive harm to the person or business, and only insofar as the claim directly applies to the records requested;

the specified information contained in the proprietary versions of Ameren Ex. 2.0, Staff Ex. 2.0, and Staff Ex. 3.0 fall within this exemption and should be afforded proprietary treatment until April 12, 2014; and

(7) all motions, petitions, objections, or other matters in this proceeding that remain unresolved should be resolved consistent with the conclusion contained herein.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the reconciliation submitted by Central Illinois Light Company n/k/a Ameren Illinois Company of the revenues collected under its PGA tariff with costs prudently incurred for the purchase of natural gas for the 2010 Reconciliation Period, as reflected in the attached Appendix, is hereby approved.

IT IS FURTHER ORDERED that the proprietary versions of Ameren Ex. 2.0, Staff Ex. 2.0, and Staff Ex. 3.0 are afforded proprietary treatment and are exempt from public disclosure, and will only be accessible to the Commission and the Commission Staff until April 12, 2014, after which they shall be available to the public.

IT IS FURTHER ORDERED that all motions, petitions, objections, or other matters in this proceeding that remain unresolved are hereby resolved consistent with the conclusion contained herein.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

DATED: November 21, 2013.

Briefs on Exceptions must be received by December 5, 2013.
Briefs in Reply to Exceptions must be received by December 12, 2013.

John D. Albers
Administrative Law Judge